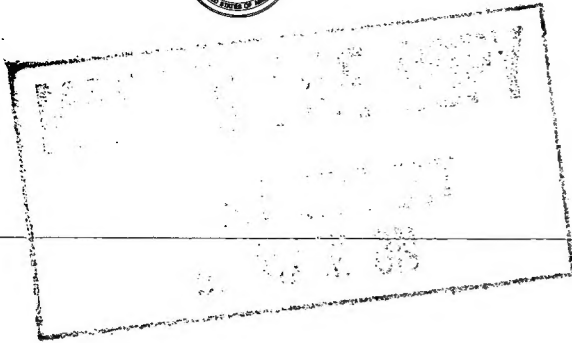




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# China's Sixth Five-Year Economic Plan (1981-85)



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A Research Paper

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# **China's Sixth Five-Year Economic Plan (1981-85)**



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**A Research Paper**

This paper was prepared by [redacted] and  
[redacted] Office of East Asian Analysis. It was  
coordinated with the National Intelligence  
Council. [redacted]

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Comments and queries are welcome and may be  
directed to the Chief, Domestic Policy Branch, OEA,  
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**China's Sixth Five-Year  
Economic Plan (1981-85)** 

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**Key Judgments**

*Information available  
as of 1 June 1983  
was used in this report.*

The approval last December of the Sixth Five-Year Plan (1981-85) was a milestone that the Chinese leadership had been working toward since Mao's death in 1976. For Beijing, the restoration of an orderly planning process may be more significant than the plan itself. During the Cultural Revolution (1966-76) China's planning apparatus was dismantled, and plans reportedly consisted of little more than targets for a few important commodities. Now, the planning bureaucracies have been reestablished and strengthened, and they have produced a plan that Beijing regards as only its second real five-year plan—along with the First Five-Year Plan (1953-57).

Perhaps most important to the top leadership, policy discussions leading up to the plan have been relatively free of ideological cant and have explored a wider range of options. This plan emphasizes factors such as economic efficiency, productivity, and consumer needs, and virtually ignores socialist proprieties. In our judgment, Beijing's policies have become more realistic, particularly in comparison with earlier years when more traditional Soviet-style economic ideas or Maoist notions guided economic policies.

The Sixth Plan is more comprehensive and methodologically sounder than recent plans, but we believe that it still falls far short of being fully comprehensive and internally consistent. The limited capabilities of Chinese planners, the scarcity and uneven quality of basic economic data, and the political and economic complexities of governing 1 billion people all prevent Beijing from doing much better at present. Because final decisions on many issues have yet to be made, and because of problems with the plan itself, we expect a number of revisions in the plan during 1983-85. Indeed, the government has referred to the desirability of a "rolling plan," to which adjustments would be made annually.

The "five-year plan" is really a three-year plan (1983-85), given the late 1982 approval date. Relatively rapid growth in 1981-82 has put Beijing in a position where many of the 1985 output targets can be met with ease:

- Because national income grew at an average rate of 5.2 percent in 1981-82, it need only grow 2.6 percent annually during 1983-85 to meet the target for national income.
- Similarly, agriculture must grow at only 1.2 percent annually in 1983-85 to meet the 1985 target—because growth in 1981-82 averaged 8.3 percent.
- And industry, after growing by 5.9 percent yearly in 1981-82, need only grow 2.7 percent annually for the next three years to meet the 1985 target.

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But we anticipate that Beijing will have difficulties attaining other goals where the demands on management are greater. These include targets for energy conservation, lower costs, and higher productivity that are critical to Beijing's attempts to reduce waste and make the economy more competitive internationally.

One obstacle to plan fulfillment is the lack of adequate management systems, such as cost accounting and quality control procedures, that permit plant managers to monitor cost, quality, and productivity trends. To facilitate needed improvements, Beijing has set modest output targets to reduce the pressures of current production responsibilities on management.

Another impediment is the shortage of managerial skills. China's bureaucracies have trouble handling even simple tasks and can hardly be expected to deal expediently and effectively with complex problems such as energy conservation. Nor can management reforms be expected to alter substantially the current situation any time soon. The top leadership continues to advocate economic reforms, and some partial steps have been taken; but full-scale reforms have been postponed until after 1985, when Beijing hopes to have in hand a more comprehensive reform program.

Beijing's emphasis on energy, agriculture, transportation, and science and technology—areas where US industry enjoys a relatively strong competitive position—has broad implications for the United States:

- Heavy spending in the oil and coal industries will create attractive opportunities for US businesses. The Chinese will require advice, technology, machinery and equipment, and support services.
- Further opportunities will arise in connection with the large-scale replacement of machinery and equipment and the renovation of plants in other industries.
- Limited prospects for agricultural development mean that demand for grain imports will remain strong, and the potential for continued large US sales good.
- Plans to upgrade education, management techniques, science, and technology imply a larger, closer relationship with the United States, with more Chinese students and scientists coming to the United States and more sales of US technology to China.
- On a negative note, in the next few years the small number of deepwater ports and harbors will continue to hinder US carriers from achieving the minimum one-third share of cargo called for in US-PRC maritime agreements.
- We also cannot rule out the possibility that continuing strains in US-PRC political relations will ultimately reduce Beijing's desire for greater US involvement in China's modernization.



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## China's Sixth Five-Year Economic Plan (1981-85)

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### A Milestone

On 10 December 1982 China's National People's Congress (NPC) approved the Sixth Five-Year Plan (FYP) for National Economic and Social Development (1981-85). Three days later, Beijing published excerpts from the plan—altogether about one-third of the document submitted to the congress. These were important milestones that the leadership had worked toward since Mao's death in late 1976. During the Cultural Revolution (1966-76) China's planning apparatus was dismantled, and planning consisted of little more than setting annual targets for a few important commodities.

Approval of the Sixth FYP thus marks a return to orderly and comprehensive economic decision making after a hiatus of more than 20 years. According to Fang Weizhong, Vice Minister of the State Planning Commission, only the First FYP (1953-57) was "fairly comprehensive" and successfully fulfilled. The Second FYP was aborted after a series of manmade and natural disasters in 1958-59, and the remaining plans were plans in name only. Fang has described them as consisting merely of suggested quotas or as being only outlines.

Although the Sixth Plan is more comprehensive and methodologically sounder than earlier five-year plans, in our judgment it falls far short of being fully comprehensive and internally consistent. The limited capabilities of Chinese planners, the scarcity and poor quality of basic economic data, and the political and economic complexities of governing 1 billion people prevent the Chinese from doing much better at present. To some extent, the shortcomings of the plan are offset or ameliorated by the limited scope of the plan.

This plan's moderate targets also distinguish it from previous plans. The leadership is sensitive to unrealistically high growth targets, a nearly constant feature of economic "planning" for the past quarter century.

**Table 1**  
**China: Scope of the Economic Plan**

Percent

	1979	1980	1981	1982
Planned portion of agriculture and industry <sup>a</sup>	47.7	46.4	46.0	44.4
Agriculture	59.7	59.1	58.0	57.5
Industry	43.7	42.3	42.0	40.0

<sup>a</sup> As a portion of gross value of agricultural and industrial output, of agricultural output, and of industrial output, respectively.

The most recent example is the overly ambitious "10-year plan" unveiled by then Chairman Hua Guofeng in early 1978 and roundly rejected by Beijing after the Third Plenum in December of that year.

### Scope of the Plan

Although the plan is the principal determinant of economic activity, it is not an all-encompassing instrument. As in other socialist planned economies, much economic activity in China occurs outside the state plan. It is only because of this extraplan activity, much of it semilegal or illicit, that the economy functions as well as it does. Ironically, enterprise managers often can fulfill plan targets only by using semilegal means to acquire scarce inputs.

The data in table 1 suggest the limited scope of the plan in terms of commodity production. They show, for example, that in 1982 just over 44 percent of gross value of agricultural and industrial output was covered by the annual economic plan. The proportion for agriculture, 57.5 percent, was higher than that for industry, 40 percent. In both agriculture and industry

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Table 2

China: A Plan Already Near Completion <sup>a</sup>

	Actual 1980	Actual 1982	Target 1985	Average Annual Growth Rate ( <i>percent</i> )	
				Actual 1981-82	Required 1983-85
Value					
Gross value of agricultural and industrial output ( <i>billion 1980 yuan</i> )	715.9	814.5	871.0	6.7	2.3
Agriculture	218.7	256.6	266.0	8.3	1.2
Industry	497.2	557.9	605.0	5.9	2.7
Light industry	233.3	281.5	298.0	9.8	1.9
Heavy industry	263.9	276.4	307.0	2.3	3.6
Products					
Grain ( <i>million tons</i> )	320.56	353.43	360.00	5.0	0.6
Cotton ( <i>million tons</i> )	2.71	3.60	3.60	15.3	0
Yarn ( <i>million tons</i> )	2.93	3.35	3.32	6.9	0
Cloth ( <i>billion meters</i> )	13.47	15.35	15.30	6.8	0
Coal ( <i>million tons</i> )	620.00	666.00	700.00	3.5	1.7
Electric power ( <i>billion kilowatts</i> )	300.60	327.70	362.00	4.4	3.4
Rolled steel ( <i>million tons</i> )	27.16	29.02	29.30	3.4	0.3
Fertilizer ( <i>million tons</i> )	12.32	12.78	13.40	1.8	1.6
Cement ( <i>million tons</i> )	79.86	95.20	98.00	9.2	1.0

<sup>a</sup> See appendix B for complete statistics.

the planned portion of output has declined since 1979, reflecting Beijing's decision to allow more production and marketing activity to be guided by market forces.

These data, however, understate the importance of the plan. Despite Beijing's willingness to countenance more market activity, the production and distribution of almost all major commodities are still controlled by the plan. Also, through efforts to plan employment, wages, investment, prices, and other macroeconomic variables, Beijing exerts strong influence on extraplan activity. The important point is that the plan is the principal, but not sole, determinant of overall economic activity.

### Really a Three-Year Plan

Because it was finally approved by the NPC only in late 1982, the new plan is in fact a three-year plan for 1983-85. As the data in table 2 illustrate, goals that seem moderate or slightly ambitious for the full 1981-85 period appear conservative, sometimes absurdly so, when the rapid growth during 1981-82 is taken into account. Overall industrial production during 1981-82 grew at an average annual rate of about 6 percent, almost 50 percent faster than the plan called for. It will only have to grow at 2.7 percent annually in 1983-85 to fulfill plan targets. In the heavy industrial sector, for example, growth rebounded from a negative 4.7 percent in 1981 to a positive 9.9-percent rate

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in 1982 and thus far in 1983 is running almost 12 percent above last year, suggesting that it will easily exceed the 3-percent target for the period as a whole. Other production data, for agriculture as well, suggest the same. [redacted]

There are some areas, however, for which we believe objectives of the FYP are less conservative, and perhaps too ambitious. Targets for energy conservation, production costs, and labor productivity, for example—because of Beijing's clear failure in these areas over the past decade—appear less likely to be fulfilled. [redacted]

Beijing's preference for a plan that in many respects is conservative is based primarily on its desire to lay the foundation for more rapid growth in the 1990s, as Premier Zhao Ziyang explained at the National People's Congress last fall. Probably foremost in the leadership's mind are the bottlenecks that now impede growth. Eliminating or ameliorating these constraints, particularly those in energy and transportation, cannot be accomplished quickly and will require heavy investment. At the same time—and in a sense a bottleneck of formidable proportions—the economic system is extremely wasteful in its use of resources. Beijing recognizes that, if the economy is to satisfy the current demands of consumers and provide for future growth, operating efficiency must improve substantially. [redacted]

It is our view that this recognition underlies Beijing's preoccupation with "economic results" and the de-emphasis of gross output targets. The Chinese have already carried out some preliminary, modest reforms to enhance economic efficiency. At the same time they have focused on reinstituting and strengthening fundamental management systems, such as cost accounting and quality control procedures, that permit plant managers to monitor cost, quality, and productivity developments. From discussions in the media, our impression is that, almost seven years after the

official end of the Cultural Revolution, most enterprises still have not reinstituted effective management systems. To smooth and speed up the process, Beijing has set modest output targets to reduce the pressures of current production responsibilities on management. [redacted]

Noneconomic factors also underlie certain plan goals. In any country, planners may prefer a particular program or target for technical or economic reasons, but politics or bureaucratic rigidities frequently convince them that an alternative program or goal is preferable. We are unable to point to a clear example in the Sixth FYP of accommodation to political pressures, but we believe accommodations surely have occurred.<sup>1</sup> Since China has no history of strong, technically sound central planning, political and bureaucratic factors probably play stronger roles in the planning process than in other planned socialist economies. [redacted]

Political considerations are obviously important elements in policies toward foreign technology and investment. The Chinese remain extremely sensitive because of infringements on China's sovereignty by the West and Japan during the past century. Although the ideological climate has eased compared with the mid-1970s, Beijing continues to be concerned about and to watch closely the influence of foreign ideas on Chinese society. Recognizing the potential benefits from foreign technology and investment, Beijing has taken pains to insulate commercial and other economic links from political strains in their bilateral relationships—most importantly with the United States. We cannot rule out the possibility, however, that over time political strains could adversely affect developments in trade and technology. [redacted]

<sup>1</sup> See section on Major Policy Issues, below. [redacted]

**Confidential****Midway Through the Plan: Continuing Instability<sup>2</sup>**

Two decades of ill-conceived economic policies and weak planning are largely to blame for the economic situation facing Beijing today. The problems are familiar ones. None is of recent origin, and some were apparent as early as a decade ago. The problems include:

- Severe energy shortages and transportation bottlenecks.
- High per-unit energy and raw materials consumption, stagnating labor productivity, and large inventories of unwanted products.
- Uncertain budget revenues.
- Strong inflationary pressures and high unemployment.

Energy shortages—especially in key industrial cities in the east and northeast—have led the government to step up its effort to close plants where energy use is wasteful and to issue stronger regulations aimed at reducing power consumption. Shortages of transport capacity have been especially noticeable in their impact on energy supplies. In Shanxi Province, China's largest coal producer, coal has piled up at mine heads because of the lack of railway capacity to haul it to industrial consumers in other provinces.

Economic planners in the past two years have concentrated on improving industrial efficiency, but they have achieved little. The wasteful consumption of energy and raw materials, and excessive inventories—evidence of low product quality and inappropriate output mix—remain serious problems, even after several years of attention from Beijing's bureaucrats.

Unprecedentedly large budget deficits in 1979 and 1980, followed by smaller ones in 1981 and 1982, have contributed to the general economic instability. The immediate reaction to the situation—caused by heavy spending on new programs and unanticipated drops in revenues—was to cut expenditures while seeking ways to stabilize and increase revenues. Beijing has now taken the more practical steps of repossessing a number of revenue sources previously turned over to lower level authorities and revising the tax

system. Based on projections of much higher revenues, the Chinese have greatly increased budget expenditures in 1983. First-quarter data, however, show only a slight gain in revenues. If current trends continue, the budget deficit in 1983 could be much larger than the small one now anticipated.

After several years of rapid improvements, gains in urban living standards tapered off in 1981 and 1982. They face further threats from inflation and unemployment. Inflationary pressures may have eased somewhat since 1979-80, but remain strong. As prices continue to rise at moderate-to-rapid rates, and increases in money incomes slow—in response to Beijing's attempts to tie wages to productivity—gains in real incomes will fall further. Urban unemployment probably rose in 1981-82, following a brief decline from the peak of 10 to 20 percent in 1979. Unemployment has been rising in the countryside as well. In both urban and rural areas the number of new entrants to the labor force has risen and will remain high throughout the plan period while slow industrial growth will hinder efforts to provide more jobs. In our judgment, high rates of unemployment will continue.

**Major Policy Issues**

Four issues dominated economic policy debates during the preparation of the plan:

- The rate of investment, and consumer needs.
- The relative rates of growth for heavy and light industry.
- The role of the market in China's economy.
- The extent of reliance on foreign capital and technology.

Economic policy in 1979-80 had a relatively strong proconsumption, promarket, pro-light-industry orientation, coupled with an emphasis on China's capacity to profit from foreign capital and technology. Current policies contain the same general thrust, but are more moderate and subtle. On investment-consumption issues, for example, the FYP—in light of performance in 1981-82—gives greater weight to capital needs.

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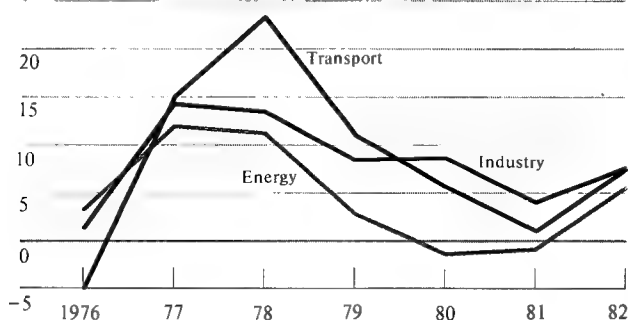
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**Figure 1**  
**China: Selected Performance Indicators**

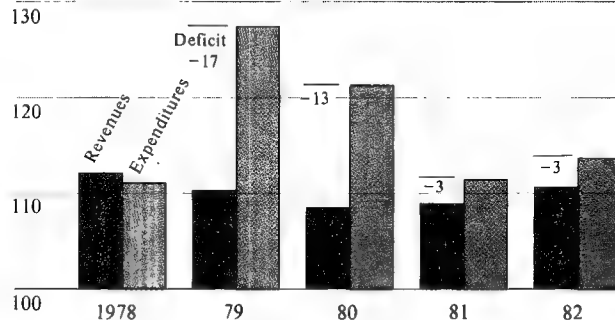
**Energy, Transport, and Industry**

Annual percent change



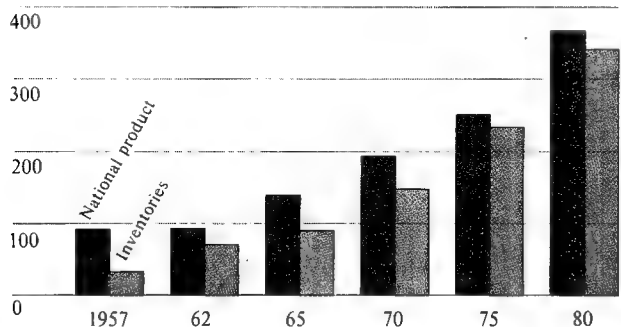
**The State Budget**

Billion yuan

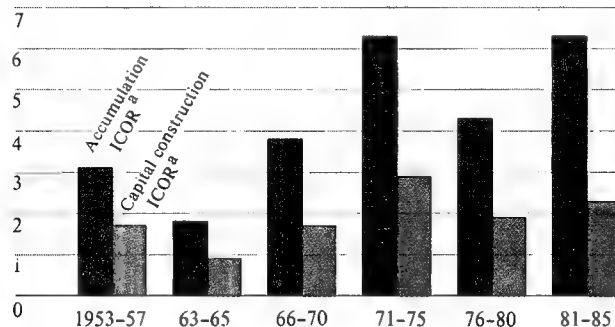


**Inventories and National Product**

Billion yuan



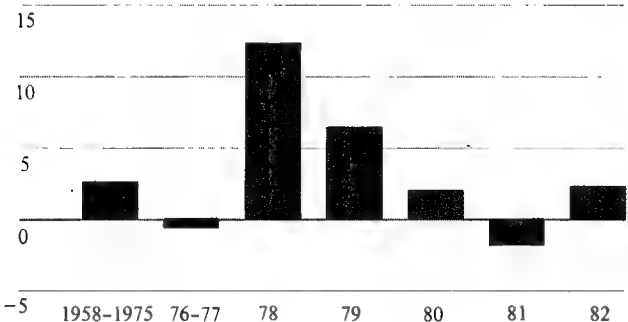
**Investment Per Unit Increase in Output**



<sup>a</sup> See Appendix C

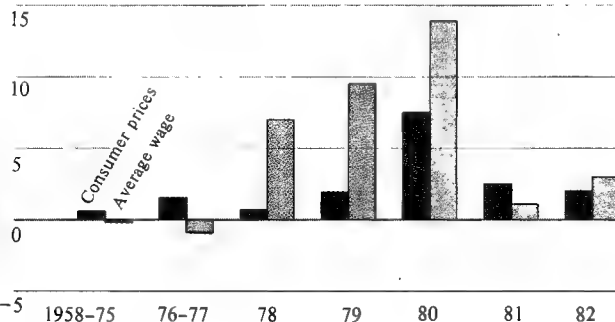
**Industrial Labor Productivity**

Annual percent change



**Wages and Prices**

Annual percent change



**Investment Versus Consumption.** Since late 1978, the Chinese leadership has criticized earlier economic policy for placing too much emphasis on investment (largely in the heavy industry sector) and too little on improving living standards, which had stagnated since the late 1950s. The government has steadily reduced the portion of national income going to investment activity, has channeled more investment to consumer goods industries, and has dramatically raised incomes and consumption levels in both rural and urban areas.<sup>3</sup>

This proconsumer shift has been accompanied by a debate in the Chinese press over consumption's appropriate share of national income. It grew from 64 percent in 1978 to 72 percent in 1981. Few people have argued against improvements in living standards, or even against the large increases in incomes that occurred in 1979 and 1980. Rather the discussion has centered on whether further rapid growth in consumption, and an increase in the share of national income going to consumption, will endanger future economic growth and living standards.

There are signs that early last year these concerns led Beijing to moderate its emphasis on living standards. The media cited warnings by senior policymakers Chen Yun and Li Xiannian against consuming too much and investing too little. We believe there is a leadership consensus that further growth in the consumption share would make it difficult to ensure a rate of investment sufficient to alleviate bottlenecks and provide a higher rate of economic growth in the future.

**Rates of Growth for Heavy and Light Industry.** The policy debate over the relative rates of growth of heavy and light industry has paralleled, and is part of, the debate on investment and consumption. As stated above, beginning in 1978 Beijing began to give unprecedented emphasis to consumer goods production, reversing the priority accorded heavy industry in most of the preceding 30 years. This resulted in the rapid expansion of light industry and a low growth rate for heavy industry through 1981. Drafts of the Sixth FYP circulating as late as mid-1982 continued to call for at

least 7-percent annual growth for light industry and for only 1-percent annual growth for heavy industry. Between July and November, however, the targets were altered to 5 percent for light and 3 percent for heavy industry. We interpret this, too, to reflect the leadership's growing belief that investment needed to be higher.

The government now seems to have refined its industrial policy somewhat. Instead of one-sidedly stressing light or heavy industry, it is trying to adjust product mix and improve quality within these sectors. But as media articles attest, the arguments about heavy versus light industry are still alive and, in our view, will continue even after Beijing resolves the investment question because bureaucratic constituencies will continue to compete for resources.

**Role of the Market.** During 1979-81, when planning and the use of markets were widely discussed, many government economists argued in journals and the daily press that China's past economic difficulties were largely the fault of centralized planning and that market forces should be allowed to play a larger role. Concurrently, Beijing shifted additional financial, investment, production, and marketing responsibilities to enterprises and local governments, formally decentralizing a number of economic decisions. Beginning in 1981, although government leaders continued to advocate some role for the market, they made it clear that the market would be allowed to play only a subsidiary role; the plan would continue to be the dominant instrument of resource allocation.

We believe this policy shift was probably triggered by the unexpected and unacceptable loss of control over financial and investment matters, as well as by the ground swell of arguments belittling planning. The leadership has decided that to concentrate resources effectively on problem sectors it must have stronger central management.

**Foreign Capital and Technology.** Discussions about the inflow of foreign capital and technology have aroused strong expressions of nationalistic and protectionist sentiments, but we believe the leadership is relatively unified in its support for stronger links to

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**Table 3**  
**China: Sixth FYP Living Standard Goals**

	1980	1981	1982	Plan 1985	Average Annual Growth Rate (percent)	
					1981-85	1983-85
<b>Rural</b>						
Per capita income (yuan)	191	223	257	255	6.0	Nil
<b>Urban</b>						
Employment (yearend million persons)	104.44	109.4	112.8	126.44	3.9	3.9
Wage bill (billion current yuan)	77.25	82.0	88.2	98.3	4.9	3.7
Average wage (yuan)	762.0	772.0	798.0	800.4	1.0	Nil

the international economy. Beijing's seemingly unbridled enthusiasm in the late 1970s for foreign capital and technology has waned, but this pulling back is based more on careful examination of costs and benefits than on nationalistic impulse. In 1978, China's foreign trade corporations went on a buying spree and in a matter of months placed orders for almost \$8 billion worth of Western and Japanese whole plants. Policy changes in late 1978 shifted the focus of capital imports toward infrastructure, energy, and light industry. At the same time, foreign exchange shortages forced major cutbacks in imports of capital goods. Since then, the Chinese have scaled back their investment program, leading to further reductions in imports of capital goods. (They have signed only about \$2.5 billion worth of contracts for whole plants since 1979.)

With the Sixth Plan now approved and China in its strongest international financial position ever (\$11 billion in foreign exchange reserves at yearend 1982), we expect imports of capital goods to rebound. Beijing is planning to bring in large quantities of machinery and equipment; the concessional loans lined up between 1979 and 1982 will probably be drawn upon to finance the drive. There were rumors last summer that Beijing was considering more restrictive laws on foreign equity participation in Chinese enterprises. But recent changes in tax laws to reduce the tax burden on foreign investors and progress on legal issues that will reduce investor uncertainty indicate continuing, relatively broad-based support for foreign economic policies.

#### **Sixth FYP Goals and Prospects**

Beijing stresses several themes when describing the plan, contrasting current policies with earlier ones:

- Realistic targets, based on actual economic conditions—as opposed to “wishful thinking.”
- Growth derived largely from improvements in efficiency and productivity, rather than primarily from additions to labor and to capital.
- Stronger central control of investment, targeted especially at major projects in energy and transportation and at upgrading industrial technologies.
- Appropriate attention to the development of science and technology, and to manpower training.
- Production geared to social needs, including personal consumption requirements.

**Investment: The Heart of the Plan.** From the targets for wages and living standards, it appears that Beijing now believes that its capital requirements are so large that only modest improvements in living standards are possible in 1983-85 (see table 3). Over the five years, Beijing plans to expand urban employment by about 22 million jobs. At the same time, the wage bill is to increase at a 4.9-percent average annual rate. These figures suggest only a 1-percent-per-year increase in the average wage—in sharp contrast to the rapid gains during 1978-80.<sup>4</sup> Furthermore, the average

<sup>4</sup> Retirements from the urban labor force have been high, and in the 1981-85 period another 5 percent of the labor force will retire. The replacement of seasoned workers with younger, lower paid workers will tend to reduce the average wage, but this fact does not detract from the point that wage targets for the period are modest by recent standards.

**Table 4**  
**China: Distribution of Capital Construction Investment,**  
**1976-85**

	Fifth Plan (1976-80)		Sixth Plan (1981-85)		Change in Investment (percent)
	Billion Yuan	Percent Share	Billion Yuan	Percent Share	
Fixed investment	224.275	100	230	100	2.6
Industry	123.008	54.8	120.18	52.3	-2.3
Agriculture, forestry, and water conservation	24.608	11.0	14.13	6.1	-42.6
Geological exploration	2.953	1.3	1.49	0.6	-49.5
Communication and transport	30.245	13.5	29.83	13.0	-1.4
Commerce and foreign trade	8.735	3.9	6.26	2.7	-28.3
Science, education, culture, public health, and physical culture	12.782	5.7	9.43	4.1	-26.2
Housing, public utilities, and environmental protection	9.512	4.2	17.88	7.8	88.0
Other	12.432	5.6	30.80	13.4	147.7

wage in 1982 (798 yuan) is already very close to the target for 1985 (800 yuan). Similarly, although per capita rural income is slated to grow by 6 percent per year during 1981-85, all of the targeted gain has come in the first two years of the plan. The plan also calls for per capita consumption to increase by 4 percent or more per annum, and while there are no data yet for 1982 we suspect that this goal also has already been, or is close to being, fulfilled. Beijing certainly will not attempt to cap personal incomes at current or planned levels, but it is clear that the government will try hard to keep future increases within labor productivity improvements and below the gains recorded in 1981-82. [ ]

In contrast, investment plans call for additional large spending in 1983-85. At the moment, Beijing is particularly concerned about funding for key projects. Last year, several critical energy and transportation projects were held up by inadequate funding and shortages of construction materials. [ ]

*The Investment Plan.* During 1981-85, China plans to spend 230 billion yuan on *new fixed investment* (or capital construction), with the 130-billion-yuan balance of a total 360-billion-yuan investment plan going to replacement investment.<sup>5</sup> [ ]

<sup>5</sup> These figures pertain only to investment by the state sector. Also, capital construction includes a small amount of replacement investment. [ ]

The 230 billion yuan for capital construction (new fixed investment) averages 46 billion yuan per year, marginally higher than in the Fifth FYP, but only 11 percent of national income compared with 14.8 percent in the Fifth Plan. Approximately 52 percent of the 230 billion yuan is to go to industry, down from 55 percent in 1976-80 (see table 4 and figure 2). [ ]

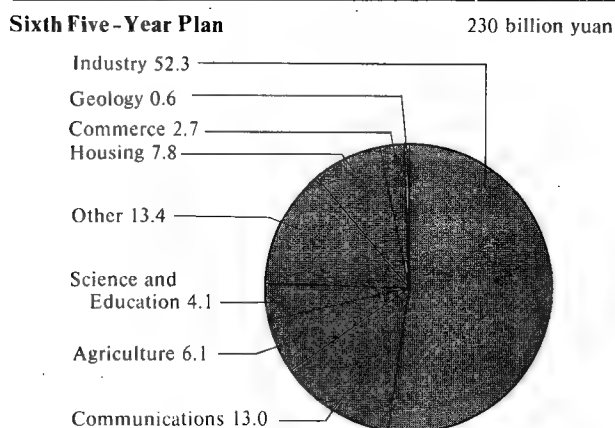
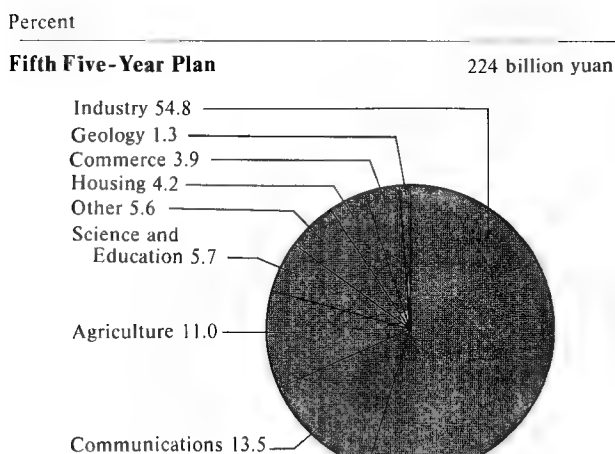
Beijing is finally channeling significant investment into problem sectors. The fuel and power industries are to receive one-fourth of capital construction, up in both absolute and percentage terms. Another 13 percent of capital construction will go to communications and transport services. Thus, these two critical sectoral constraints on economic growth will receive nearly 40 percent of all new fixed investment. [ ]

Capital construction in other sectors is down from 1976-80 levels. The machine-building industry will get a scant 2 percent of industrial investment compared with 14 percent in the Fifth Plan period (see table 5 and figure 3).<sup>6</sup> The chemical industry's share will also drop, from 14 percent to 10 percent. Metallurgy is yet another sector where investment will fall in both absolute and percentage terms. [ ]

<sup>6</sup> The machine-building industries, however, will benefit substantially from replacement investment. [ ]

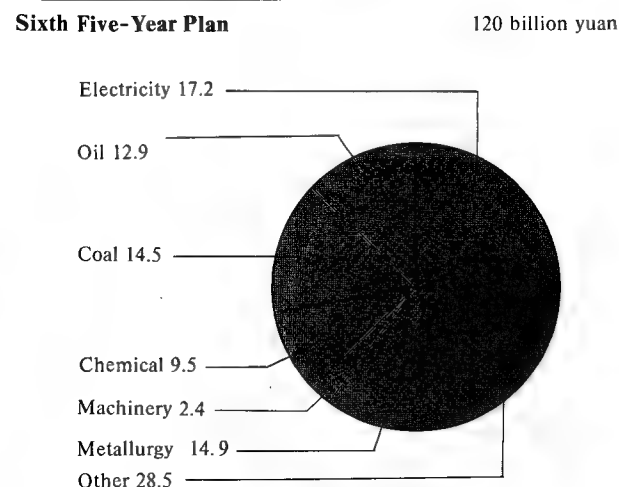
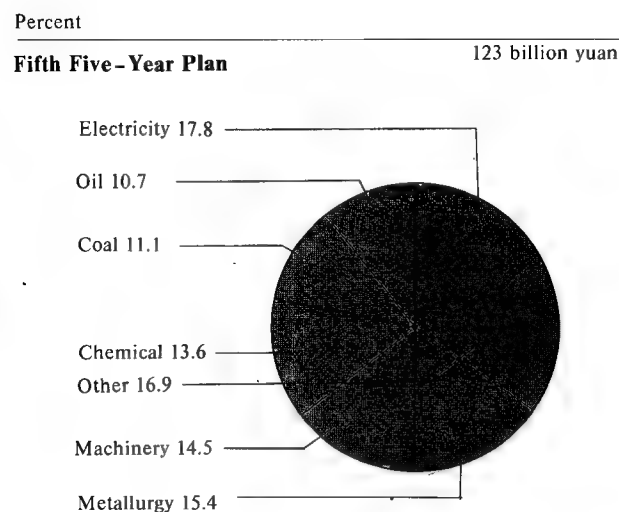
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**Figure 2**  
**Distribution of Capital Construction**



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**Figure 3**  
**Distribution of Industrial Capital Construction**



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In our opinion, one of the most important features of the Sixth FYP is that 130 billion yuan will be spent to renovate and replace machinery and equipment—referred to by the Chinese as *technical transformation*. This represents 36 percent of total fixed investment, as against 20 percent in earlier periods, and reflects Beijing's belated recognition that its antiquated industrial plant uses energy and raw materials very

wastefully, reducing China's ability to compete in foreign markets. Much of the machinery to be replaced is in the metallurgical, energy, and chemical industries. Because the machine-building industries are vital to any attempt to upgrade technologies, a large chunk of this investment also will go to that sector.

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**Table 5**  
**China: Distribution of Capital Construction in Industry,**  
**1976-85**

	Fifth Plan (1976-80)		Sixth Plan (1981-85)		Change in Investment (percent)
	Billion Yuan	Percent Share	Billion Yuan	Percent Share	
New fixed investment in industry	123.01	100	120.18	100	-2.3
Light	15.46	12.6	13.98	11.6	-9.6
Heavy	107.55	87.4	106.20	88.4	-1.3
Metallurgy	18.97	15.4	17.51	14.6	-7.7
Electric power	21.87	17.8	20.73	17.2	-5.2
Coal	13.62	11.1	17.93	14.9	31.6
Oil	13.14	10.7	15.47	12.9	17.7
Chemical	16.79	13.6	11.43	9.5	-31.9
Machinery	17.85	14.5	2.89	2.4	-83.8
Building materials and forestry	6.91	5.6	7.28	6.1	5.4

Although spending for up-to-date machinery and equipment is much larger in this five-year plan, it is not clear that the Chinese have given much thought to the directions they want to take and the problems they are likely to encounter. Yu Guangyuan, a respected Chinese Government economist, has been quoted as saying—two months after the Sixth FYP was approved—that the government still lacks a feasible long-term plan for technical transformation. [ ]

The plan document lists nine “major measures” for *reasserting government control* over the scale of investment. All but the smallest capital construction projects must be approved by the State Planning Commission; the remainder must be affirmed by provincial planning departments. Technical transformation projects are subject to similar controls. As a further safeguard, all funding for capital construction is to be controlled by the Construction Bank of China, the disbursement arm of the Ministry of Finance. These measures are similar in spirit to earlier ones that have rarely worked, mainly because the central government has been unable to control the volume of investment spending by enterprises and local governments. [ ]

Two additional steps are being taken in this FYP to control the amount and focus the direction of investment. Beijing has set up a special fund for key projects in energy and transport, under the aegis of the Ministry of Finance. The fund will amount to 4 billion yuan per year and will be funded from the 60-odd-billion yuan annually retained by enterprises. Most enterprises will be required to turn 10 percent of their retained funds in to state coffers. The second step consists of financial penalties for unapproved investment: a 30-percent surcharge, for example, will be levied on beyond-plan investment. [ ]

The new guidelines are stronger than in past years, and the 30-percent surcharge should keep some enterprises from exceeding plan targets. But it is far from clear that these measures, even if they are implemented, will bring investment under control. [ ]

*Improving Investment Results.* We believe Beijing thinks investment will be less efficient in this five-year plan than in 1976-80. The incremental capital-output ratio (ICOR) is a measure of investment efficiency



**Table 6**  
**China: Incremental Capital Output Ratios**

	First FYP, 1953-57	Second FYP, 1958-62	1963-65	Third FYP, 1966-70	Fourth FYP, 1971-75	Fifth FYP, 1976-80	Sixth FYP, 1981-85
Accumulation ( <i>billion yuan</i> )	99.8	173.2	81.1	204.7	364.4	499.7	634.7
Capital construction ( <i>billion yuan</i> )	55.0	118.7	40.4	91.5	168.0	224.3	230.0
Change in national income ( <i>billion yuan</i> )	31.9	1.6	46.3	53.9	57.7	116.4	101.3
Total asset ICOR ( <i>units</i> )	3.1	108.2	1.8	3.8	6.3	4.3	6.3
Fixed asset ICOR ( <i>units</i> )	1.7	74.2	0.9	1.7	2.9	1.9	2.3

that indicates the volume of investment required for a unit increase in output. Two varieties of ICORs are presented in table 6.<sup>7</sup> Both ICORs are significantly higher than in the Fifth Plan period, suggesting that more investment will be required for each unit increase in national income. In fact, the ICORs are closer to Fourth Plan (1971-75) ratios. We believe the relatively efficient Fifth Plan ratios are an aberration resulting from high growth rates of national income in the post-1976 recovery period.

We also attribute the apparent drop in investment efficiency to changes in the pattern of investment activity. Investment will be focused on bottleneck sectors such as energy and transport, and in projects that require lengthy completion times. Some of the investment activity in this plan period will not yield capacity increases until the ensuing plan period (see table 7). In the case of oil and natural gas, capital construction investment is purely replacement investment and contributes nothing to additional capacity.

Accelerated replacement of old capital stock will also increase investment requirements. For years, Chinese economists have argued that China's rate of depreciation for fixed assets is too low and have urged the government to raise it. Now, Beijing appears to be taking their advice. This will encourage enterprises to

scrap old machinery, and with capital retired at a faster rate, fixed investment will have to increase more rapidly simply to maintain production.

**Industry.** In industry, growth targets are modest. The goal for light industry implies only 1.9-percent growth annually over the next three years, and heavy industry's targeted 3.6-percent rate is well below its historical average (see table 8). These low targets, Beijing believes, will reduce pressures on enterprise managers and allow them to focus on more fundamental problems. This also will make it easier for Beijing to reorganize enterprises and strengthen management. Managers will be able to pay greater attention to raising productivity, cutting costs, and improving quality. To a considerable degree, the success or failure of the FYP hinges on how well Beijing and its managers handle these tasks.

Beijing's attempts to reorganize enterprises and raise the level of management have already fallen behind schedule. According to Yuan Baohua of the State Economic Commission (SEC), who is coordinating this "consolidation" of enterprises, by mid-April the process had been completed at only 14 percent of the 1,320 largest industrial firms, far below the 70-percent completion target. Current plans call for 20 percent of all 42,000 state industrial units to be

<sup>7</sup> See appendix C for a more complete discussion.

**Table 7**  
**China: Capacity Increases From**  
**Investment Activity**

	1981-85	1986-90
Coal (million tons)	80	140
Oil (million tons)	35 <sup>a</sup>	
Natural gas (billion cubic meters)	2.5 <sup>a</sup>	
Electric power (million kilowatts)	12.9	23.7
Railroad tracks (thousand kilometers)	3.8	
Harbor capacity (million tons)	100	
Cement (million tons)	12.4	
Chemical fibers (thousand tons)	380	
Cotton processing (thousand spindles)	300	
Wool processing (thousand spindles)	200	
Sugar processing (thousand tons)	500	
Paper (thousand tons)	310	
Salt (million tons)	1.03	

<sup>a</sup> These are not additions to, but replacement of, capacity. See text.

consolidated this year, two-thirds of the remainder in 1984, and the rest in 1985. Li Jisen, deputy head of the SEC's Enterprise Management Bureau, has stressed the importance of this work by pointing out that last year nearly 30 percent of state industrial enterprises operated at a loss, losing more than 4 billion yuan—roughly 4 percent of state budget revenues.

We also see lack of progress in the areas of labor productivity, unit costs, and energy and raw materials consumption. Labor productivity declined by 1.8 percent in 1981 and last year rose by 2.3 percent. However, the productivity data are affected by the severe underutilization of capacity in heavy industry in 1981 and by the sharp recovery in that sector in 1982, making interpretation difficult.<sup>8</sup> Labor productivity in light industry, where interpretive problems are fewer, rose by only 1.2 percent in 1981 and probably did worse in 1982.

<sup>8</sup> In 1981, labor productivity in heavy industry fell by 6.3 percent.

Data on unit costs, on energy and raw materials consumption, and on quality convey a similar message. For example, costs in state industry rose by 1.2 percent in 1981; last year they declined, but by only 0.04 percent, far short of the targeted 1- to 2-percent reduction. Indexes reported by the State Statistical Bureau (SSB) show that in 1981 more energy and raw materials were being used per unit of output than in 1980. The pattern continued in 1982. SSB data on quality give a similar picture: in 1981 only 39 percent of the indexes showed improvement, and this percentage dropped to 33 in 1982.

*In general, although industrial production should continue to grow at what appear to be moderate-to-good rates during the remainder of the plan, Beijing will have its hands full in trying to improve the operating efficiency of industry.* Productivity growth probably will continue to lag; unit costs, and energy and raw materials use may fall, but probably only slowly. Quality improvements may be more obvious but, given the demands of a wealthier population, may go unappreciated. Shifts in investment patterns and higher investment spending on energy and light industry—part of it in equipment that consumes less energy and raw materials to produce better quality goods—will help alleviate these problems. But we believe the sort of management changes that encourage more efficient operations are less well understood by and will remain more elusive to Beijing.

**Agriculture.** In our opinion, the most difficult task facing agricultural planners during the period will be to achieve a crop balance better suited to industrial and consumer demands. Procurement price adjustments made after 1978 have been aimed at increasing industrial crop production, which has been achieved at the expense of the area sown to grain. In some cases the adjustments have yielded excellent results. Cotton production in 1982 jumped by 21 percent to 3.6 million tons, already reaching the 1985 target (see table 9). Tobacco output, however, has risen too rapidly; Chinese estimates of 1982 production range as high as 1.9 million tons—600,000 tons above the 1985 target and more than China's factories can absorb. The plan includes sown-acreage goals for

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**Table 8**  
**China: Sixth FYP Industry Targets**

	1980	1981	1982	Plan 1983	Plan 1985	Annual Growth 1981-85 (percent)
Gross value of industrial output (billion 1980 yuan)	497.2	517.8	557.9	580.3	605.0	4.0
Light Industry (billion 1980 yuan)	233.3	266.3	281.5	295.6	298.0	5.0
Heavy Industry (billion 1980 yuan)	263.9	251.5	276.4	284.7	307.0	3.0

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**Table 9**  
**China: Sixth FYP Agriculture Targets <sup>a</sup>**

	1980	1981	1982	Plan 1983	Plan 1985	Annual Growth 1981-85 (percent)
Gross value of agricultural output (billion 1980 yuan)	218.7	231.2	256.6	266.9	266.0	4.0
Grain production (million tons)	320.56	325.02	353.4	342.5	360.0	2.3
Cotton production (million tons)	2.71	2.97	3.6	3.37	3.6	5.8

<sup>a</sup> See appendix B for other agriculture targets.

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grain and various industrial crops; these, coupled with a recent adjustment in procurement policies, should help bring better balance to production.

The 1985 target for gross value of agricultural output appears moderately ambitious when compared with the historical record; but outstanding performance in 1981-82 makes this target very conservative. The plan calls for 4-percent average annual growth, compared with 3.4 percent in 1953-80. In both 1981 and 1982, however, growth exceeded the 4-percent target, reaching 5.7 percent in 1981 and 11 percent in 1982. This means that agriculture must grow by a total of only 3.7 percent in 1983-85 to fulfill the planned goal.

Prospects for achieving the plan's grain target, although always subject to the vagaries of the weather, are very favorable, in our judgment. Last year's production, at 353 million tons, was only 2 percent below the 1985 goal of 360 million tons. Grain production has continued to rise in spite of a reduced sown area largely because of increased incentives and favorable weather.

In the wake of new agricultural policies that leave most production decisions to peasant households, agricultural productivity—both labor and land—has risen sharply during recent years. Beijing apparently expects that further gains in labor productivity and the

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**Table 10**  
**China: Sixth FYP Energy Goals**

	1980	1981	1982	Plan 1983	Plan 1985	Average Annual Growth 1981-85 (percent)
Total (in standard coal equivalent, million tons)	637.2	632.2	668.0	NA	682.9	1.4
Coal (million tons)	620.0	622.0	666.0	670.0	700.0	2.5
Oil (million tons)	105.95	101.22	102.12	100.0	100.0	-1.1
Natural gas (billion cubic meters)	14.27	12.74	11.93	10.4	10.0	-6.9
Electric power (billion kilowatt-hours)	300.6	309.3	327.7	338.0	362.0	3.8

more efficient use of land and other inputs will continue to boost output through 1985, because production targets imply a rate of growth that outstrips the planned growth of fertilizer and other current inputs. The state has earmarked 14.13 billion yuan for agricultural investment during 1981-85, 6.1 percent of total capital construction.<sup>9</sup> This is a reduction of more than 40 percent from 1976-80. But state investment has never been a large share of agricultural investment; most is funded by rural collectives themselves. Now it appears that Beijing, pointing to the rapid growth in agricultural incomes over the past few years, expects an even larger share to be funded by individual peasants and collective units.

*Energy. We believe energy may be the weakest link in the plan despite its high priority in the investment budget.* Premier Zhao, in his speech on the plan, suggested as much when he pointed out that the industrial growth target for the plan period—4 percent per year—is lower than the historical growth rate partly because energy output cannot be increased quickly. Energy output is slated to increase only 1.4 percent per year, making it one of the slowest growing sectors in the economy (see table 10). Consequently, the plan stresses investment in new machinery that consumes less energy, allocating 5 billion yuan specifically for that purpose.

<sup>9</sup> The 14.13 billion yuan is investment in agriculture, forestry, water conservancy, and meteorology. In 1981, when 2.92 billion yuan was allocated to these sectors, agriculture received 1.29 billion; forestry, 0.29 billion; water conservancy, 1.31 billion; and meteorology, 0.04 billion. This breakdown is not available for the full five years of the Sixth FYP.

The shifting pattern of industrial growth, away from energy-intensive heavy industry to light industry where energy use is much smaller per unit of final output, has allowed industrial output to continue to increase at a 5.9-percent average annual rate in the first two years of the plan, despite energy supply growth of only 2.4 percent per year. It is difficult for us to tell, however, how much of the improvement in energy efficiency is the result of one-time adjustments of wasteful energy practices, or whether further conservation is possible at the 3-percent annual rate stipulated in the plan. Because Beijing thus far has been unable to muster the political clout to significantly raise energy prices, its ability to fulfill conservation targets remains highly questionable.

Investment in the energy sector is expected to reach 54 billion yuan in the five-year period (excluding investments in technological transformation), an 11-percent gain over the outlay in the previous plan. Although not a large increase, it is significant, especially in light of the zero growth planned in overall industrial investment. In addition, energy will benefit more than any other sector from direct foreign investment. We anticipate that as much as \$4 billion (7 billion yuan) may be spent by foreign firms in China's oil and coal industries by the end of 1985.

The investment plan implies a major shift in focus within the energy sector. Investment in the coal industry is to rise 32 percent above Fifth FYP levels

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to 17.9 billion yuan, while investment in electric power will decline by 5 percent to 20.7 billion yuan. The shift is necessary, at least for the short term, because of the possibility that, otherwise, new thermal power plants will not have coal to burn. Because Beijing has invested heavily in electric power during the recent past, capacity and output for the electric power industry are expected to increase by 20 percent by 1985, a 3.8-percent average annual increase for the plan period. Even with higher investment, coal output is targeted to rise by only 13 percent—2.5 percent per year. We estimate that more than 60 percent of that increase will be required by new power plants alone. Beijing hopes to export much of the remaining increase, portending a clear problem for other heavy users of coal, including the transportation, metals, chemicals, and residential/commercial sectors. [ ]

Investment in the petroleum sector is to rise 18 percent above the Fifth FYP total, reaching 15.5 billion yuan. This figure includes not only the investment costs of oil and gas exploration and development but some refining industry investment as well. It also includes substantial foreign borrowings; major projects include the development of Bohai oilfields, for which China will borrow up to \$2 billion from Japan's Ex-Im Bank, and a secondary recovery project at Daqing oilfield which includes a \$160 million loan from the World Bank. The 15.5 billion yuan investment figure does not include, however, the billions of dollars expected to be invested by foreign oil companies exploring the South China Sea and the Bohai. [ ]

Despite the increased investment, oil output is targeted to remain flat through 1985, reflecting the poor reserve status of China's major oilfields. The plan calls for 35 million tons of "new" oil output capacity, but this clearly refers to replacement capacity—production from existing wells is falling at 8 million tons per year (8 percent of current output), a rate we expect to accelerate. We believe, therefore, that Beijing will have difficulty maintaining current output rates and by 1985 will face a decline in oil output. As a result, petroleum exports—currently 20 percent of foreign exchange earnings—may be squeezed. [ ]

**Table 11**  
**China: Sixth FYP**  
**Freight Volume Targets**

*Million tons originated*

	1980	Plan 1985	Average Annual Growth, 1980-85 (percent)
Rail	1,086	1,200	2.0
Water	395	460	3.1
Road	538	650	3.9
Port	217	260	3.7

*Transportation. In addition to energy, Beijing has singled out transportation and communications for particular emphasis during the Sixth Plan, but both investment plans and performance goals appear modest to us in relation to needs (see table 11 for performance goals). During 1981-85 China plans to invest 29.8 billion yuan in transportation and communications, mainly for railway and harbor construction. This is 13 percent of total capital construction. Some funding, probably slightly more than 5 percent, will come from foreign sources. About \$125 million in World Bank funds is earmarked for the development of container facilities at three ports. And the Japanese are financing the construction of coal-related rail and port facilities in North China. [ ]*

Capital spending on railways is to be restored to the levels of 1971-75. The plan calls for 17.3 billion yuan in rail investment, a 23-percent increase over 1976-80, and a rail freight (tonnage) increase of 10.5 percent—2 percent per annum. During 1976-80, despite projections of strong and growing demand for transport services, Beijing reduced investment in railways to 14 billion yuan, an action which led to further deterioration of the transportation system. As a result, rail freight has stagnated. After peaking in 1979, rail performance fell in both 1980 and 1981, and last year there was little growth. Official data show similar trends in highway and water transport. [ ]

Much of the construction work on transportation is taking place in energy-rich North China where coal is chronically stockpiled because of lack of transport, and in coastal areas where heavy flows of commodities, largely for export, are congesting transport systems and ports. Beijing intends, by 1985, to increase the number of deepwater berths by one-third and provide added facilities to relieve port congestion. The Chinese press has reported that more than 100 ships a day are awaiting port clearance. [ ]

An inadequate inland transport network also limits the amount of cargo that can move through Chinese ports and is partly responsible for the congestion. A number of rail projects to improve this flow are scheduled for completion by 1985. Because China has no immediate plans for improving the overall highway network, however, rails will continue to move the bulk of short-haul cargoes, which usually move by truck in more developed countries. We believe that most of the increased rail capacity will be needed to accommodate rising domestic shipments and coal export commitments and will only marginally improve port service. [ ]

In recent decades, with the exception of perhaps a few years in the early 1970s, Beijing has been reluctant to allocate needed investment funds to transportation and communications. Funding scheduled for the Sixth FYP, although much higher than in 1976-80, suggests a continuation of these shortsighted policies. The severity of energy problems, however, probably means that projects related to the movement of coal and oil will receive priority attention. [ ]

**Education, Science, and Technology.** Beijing's growing recognition of the importance of education, science, and technology is reflected throughout the Sixth FYP document. In the S&T portion of the plan, 38 areas have been selected for immediate attention, with the most important in agriculture, food storage and processing, energy, transportation/communication, health, and computers and electronics. [ ]

State budget noninvestment expenditures for science and education will total 96.7 billion yuan during 1981-85—a 68-percent increase over the 57.7 billion yuan appropriated in the Fifth FYP and 15.9 percent of budgetary expenditures compared with 11 percent

in the previous plan.<sup>10</sup> In addition, 9.43 billion yuan has been allocated for investment in science and education, most of which apparently will be used to renovate existing research and education facilities. These funds do not include the majority of monies allocated for research and development efforts in the defense sector, nor do they include funds allocated for R&D within the various ministerial budgets. [ ]

A modest boost will be given to higher education during the Sixth Plan. Greatest attention will be focused on qualitative upgrading of the system and gradual expansion to accommodate future enrollment increases, especially at the postgraduate level. Although the bulk of funds for higher education will come from the overall science and education budget, Beijing has established a special 700 million yuan fund for construction of new schools and expansion of experimental laboratories in universities. [ ]

The Chinese will continue to stress overseas training programs; an additional 15,000 officially sponsored students are to be sent abroad by 1985. The United States continues to host the largest number of Chinese overseas students, approximately 10,000 at the end of 1982. Slightly less than half of these students are officially sponsored and funded by the Chinese Government. [ ]

*In spite of budget increases, we believe funding for science and technology remains insufficient considering the severity and immediacy of the problems confronting China.* Shortages of qualified S&T personnel will continue to constrain the pace of overall development efforts, especially the assimilation of foreign technology. Although existing programs to rehabilitate higher education, improve the quality of research, and secure technology and know-how from abroad will yield increasing benefits, there is ample evidence that managerial and organizational bottlenecks will remain serious constraints on the S&T development effort. In our view, the situation will not appreciably improve until the 1990s, except perhaps in high-priority defense sector R&D programs. [ ]

<sup>10</sup> This figure also includes some funding for culture, public health, and physical culture. [ ]

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**Table 12**

Billion yuan


**China: Sixth FYP Foreign Trade Targets <sup>a</sup>**


	1980	1981	1982	Plan 1983	Plan 1984	Plan 1985	Average Annual Growth 1981-85 (percent)
Exports, f.o.b.	27.2	31.1	31.2	32.8	36.4	40.2	8.1
Imports, c.i.f.	29.1	28.0	28.5	35.7	40.2	45.3	9.2
Trade balance	-1.9	3.1	2.7	-2.9	-3.8	5.1	

<sup>a</sup> Foreign trade targets are based on statistics compiled by the Ministry of Foreign Economic Relations and Trade and differ from Chinese customs data.




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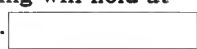
**Foreign Trade.** Despite world recession and the appearance of protectionist policies in the developed countries, we believe China's foreign trade plans are extremely conservative (see table 12). The projected export growth rate of 8.1 percent is high by world standards but significantly below the 10- to 15-percent rates achieved by China over the past five years. Unlike most developing countries that have been hurt by declining prices for their exports of agricultural commodities and various raw materials, the share of such commodities in China's export mix is very low. China can produce low-cost, labor-intensive manufactures that are still in demand on the world market. 

Beijing's plans are most vulnerable to a falling price for oil—that one commodity accounts for 20 percent of foreign exchange earnings. Every \$1 per barrel drop in the price of oil could cost the Chinese over \$100 million annually in lost export revenues. Uncertainties over oil price trends—and the possibility of volume cuts as well—probably are largely responsible for Beijing's cautious export projections. 

China's import plans are not particularly venture-some, either, in our judgment. Although the Chinese project a small trade deficit when imports are measured on a cost, insurance, and freight (c.i.f.) basis, trade would be essentially in balance if imports were measured using the more conventional free on board (f.o.b.) approach. Moreover, China's current account will continue to show a surplus. For the remainder of

the FYP, the Chinese will emphasize imports of raw materials, grains, feedstocks for light industry, and purchases of pure technology and capital goods to renovate existing factories, while continuing to discourage purchases of consumer durables and new complete industrial plants. Lower world prices for raw materials and lower interest rates will enable them to achieve these objectives without incurring substantial debt. Therefore, although China will continue to engage in the standard practice of short-term trade financing and, of course, will accept any concessionary financing offered, we do not expect the Chinese to borrow heavily in the international money markets during the next three years. 

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**National Defense.** Spending on military programs will not be particularly burdensome during this plan. Defense spending has decreased slightly as a percentage of national spending since the last FYP. We estimate that defense spending was reduced in 1981 compared with 1979 and, on the basis of public pronouncements of a 6-percent rise in defense spending, probably made a modest recovery in 1982. Chinese budget data suggest that spending will hold at the 1982 level through at least 1985. 

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An increasing share of defense spending is being allocated to weapons development and procurement of new weapons. Progress made in recent years in trimming the size of the armed services and phasing out

the production of outdated weapons is freeing funds for weapons research and the production of a new generation of weapons. Defense Minister Zhang Aiping, in a recent issue of the party journal, calls development and production of sophisticated military equipment the "first task" in defense modernization.

An additional, often overlooked, source of defense funding is Beijing's profits from international arms sales. Since 1980 the Chinese reportedly have sold over \$4 billion worth of weapons. China's defense industries might use some of the profits from these sales to modernize production facilities and procure arms production technology and equipment from the West.

**Conclusions: Political and Bureaucratic Achievement, But . . .**

As the plan now stands, the Chinese should be able to fulfill most of the output targets, many with relative ease; but we anticipate they will encounter difficulties in meeting other targets where management problems are more complicated. To Beijing these other goals—energy conservation, lower costs, better quality, and higher productivity, among others—are more important than most of the output targets. This FYP and the next are to prepare the way for more rapid growth in the 1990s; and rapid growth in the 1990s, with a larger consumption component, implies a more efficient economy and higher labor productivity. We believe this explains why the leadership has set very modest output targets for 1985: to reduce pressures on managers and give them time to deal with the complex bureaucratic, technical, and economic elements that currently hamper efficient operations.

Close examination of the plan's efficiency goals suggests that they may be more ambitious than they first appear—too ambitious perhaps. To raise productivity and efficiency, Beijing must make substantial improvements in many areas: financial and quality control systems, production organization, labor discipline, and raw materials consumption, to name only a few. But China's bureaucracies have trouble handling even relatively simple tasks expediently and effectively, and when it comes to complex issues they can hardly be expected to perform well. Considerations of productivity and efficiency are largely alien to Beijing's experience, and it is unlikely that improvements called for in the plan will come easily or rapidly.

Whatever its shortcomings, the Sixth FYP is a signal accomplishment for the Chinese. It is the fruition of a 10-year attempt by moderates in the leadership to restore and improve economic planning and to obtain agreement on economic policies that realistically address the problems of China's economy in the 1980s.



The plan may be unsophisticated when compared with plans of other socialist countries, but we agree with the judgment of Chinese planning officials that it is China's best planning effort to date. [REDACTED]

Full-fledged economic reform, which Beijing sees as the only way to ensure long-term continuing gains in efficiency and technological progress, has been delayed until after 1985. We attribute the delay partly to political considerations—ongoing party rectification and government reorganization campaigns—and partly to the lack of a coherent plan for reform. Nevertheless, new reform initiatives in industrial administration, commerce, and tax and wage systems were recently announced. These may have some small positive impact on economic performance during 1983-85. We expect the Chinese to continue to experiment with the reforms during the remainder of the plan period, but the pace and impact of those reforms will be measured. [REDACTED]

Despite the existence of a plan, we see no evidence of firm agreement in Beijing on the particulars of economic policy. Since late 1978 there has emerged a growing leadership consensus on general economic objectives. That the economy is wasteful and ineptly managed is clear to Beijing, and everyone agrees that something must be done. But how best to remedy the situation remains a lively issue. During 1979-80, the enthusiasm for economic reforms created expectations in China that much decisionmaking would be decentralized, and some decentralization did occur. Then, in 1981-82, almost all nonagricultural reforms were put on hold. In mid-1982, Beijing decided to recentralize at least a portion of financial decision making, and this is reflected in the final draft of the plan. Now a push for economic reforms is once more apparent in the media, but the scope of the changes being promoted is narrow. [REDACTED]

These shifts back and forth are at least partly attributable to differences within the leadership. Inevitably, economic policy options are seized on as ammunition by contending political forces. Currently in China this tendency is heightened by plans for government reorganization and party rectification—which will cost people jobs and influence. [REDACTED]

Against this background, we would be surprised not to see more shifts in economic policies and changes in the plan. We believe the Sixth FYP is largely a collection of goals and programs that reflects the political situation when this plan was approved last December—a political situation that has since altered and will change further. Since late 1980 the Chinese have often referred to the need for a “rolling plan”—a medium-term plan that changes as conditions require—and it is only reasonable to expect that Beijing will find periodic changes necessary as economic and political circumstances evolve. [REDACTED]

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## Appendix A

### A Chronology of the Plan's Formulation

#### 1979

##### Late in Year

The 1976-85 10-year plan already discredited, Beijing began to draw up the Sixth Five-Year Plan

#### 1980

##### April

State Council convened a forum on long-term plans, during which discussants considered important economic problems, particularly energy; after the forum, the State Planning Commission (SPC) drew up an outline of the Sixth FYP

##### July

The SPC outline was examined successively by the State Council, the Party Secretariat, and the Politburo

##### September

The central government discovered that the 1980 budget would be heavily in deficit

##### December

In response to the financial situation, a Central Committee work conference convened and decided that 1981 would have to be a year of fiscal austerity; this decision required that the Sixth FYP draft be revised

#### 1981

##### February

Premier Zhao Ziyang discussed with the SPC the problem of reformulating the Sixth FYP

##### May

The SPC, after more study, presented a report on a revised plan to the State Council

##### June

Senior leadership cadre traveled throughout China to conduct investigations and to discuss the situation with local leadership

##### September

The SPC presented a draft of the revised plan to the State Council

##### October

The Politburo received a report on different growth scenarios; after much debate, the Politburo arrived at the agricultural and industrial growth rates now featured in the plan

#### 1982

##### Spring-Summer

The SPC summarized provincial plans and kept the State Council informed of the status of the plan

##### July

Deng Xiaoping directed the SPC to find a way to ensure that investment funds would be concentrated on the most important projects and that all investment would be coordinated; this issue arose when it became clear that the central government had too little funds under its control to ensure that critical investment projects were carried out

##### December

Hu Yaobang, in his 12th Party Congress address, set forth the general principles for the Sixth FYP

##### Mid-September

The State Council studied an SPC request for instructions on the Sixth FYP financial situation and decided to recentralize investment funds

##### October

A national financial conference recentralized a portion of funds previously controlled by enterprises; this was the final step in working out the plan

##### December

The National People's Congress approved the plan



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## Appendix B

## Sixth Five-Year Plan Targets

Table B-1

China: Aggregate Economic Statistics, Sixth FYP

	1980	1981	1982	1983	1984 <sup>a</sup>	1985	Average Annual Growth, 1981-85 (percent)
<b>National product (billion current yuan)</b>							
National income produced	366.7	388.7	424.7			445.0 <sup>b</sup>	4.0
Available national income	368.4	384.9				459.0 <sup>b</sup>	4.5
Consumption	251.9	275.9				325.0 <sup>b</sup>	5.2
Accumulation	116.5	109.0				134.0 <sup>b</sup>	2.8
<b>Population</b>							
Population (yearend, million persons)	987.0	1,000.7	1,015.4			1,060.0	1.3
<b>Production</b>							
Gross value of agricultural and industrial output (billion 1980 yuan)	715.9	749.0	814.5	847.1		871.0	4.0
Agriculture	218.7	231.2	256.6	266.9		266.0	4.0
Industry	497.2	517.8	557.9	580.3		605.0	4.0
Light	233.3	266.3	281.5	295.6		298.0	5.0
Heavy	263.9	251.5	276.4	284.7		307.0	3.0
Energy production (million tons of coal equivalent)	637.2	632.2	668.0			682.9	1.4
<b>Investment (billion current yuan)</b>							
Gross investment	74.6	66.8	84.5	74.7			
Capital construction	55.9	44.3	55.6	50.7			
Replacement	18.7	22.5	28.9	24.0			
<b>Income and consumption (yuan)</b>							
<b>Income</b>							
Per capita peasant income	191.0	223.4	270.0			255.0	6.0
Per worker urban wage	762.0	772.0	798.0			800.4	1.0
Consumption per capita	227.0					277.0	4.1
Rural	173.0					212.0	4.1
Urban	468.0					547.0	3.2
<b>Foreign trade (customs data, billion US \$)</b>							
Exports (f.o.b.)	18.9	21.7	22.4	23.5		30.0	9.7
Imports (f.o.b.)	19.3	18.0	16.1	21.5		32.5	11.0
Trade balance	-0.4	3.7	6.3	2.0		-2.5	NA

<sup>a</sup> Targets not yet published.<sup>b</sup> 1980 prices.

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**Table B-2**  
**Sixth FYP Agricultural Performance and Goals**

	1980	1981	1982	1983 Plan <sup>a</sup>	1984 <sup>b</sup>	1985 Plan	Average Annual Growth Rate (percent)	
							1981-85	1976-80
Grain (million tons)	320.56	325.02	353.43			360.00	2.3	2.4
Cotton (million tons)	2.71	2.97	3.60			3.60	5.9	2.6
Oil crops (million tons)	7.69	10.20	11.82			10.50	6.4	11.2
Sugar (million tons)	29.11	36.03	43.59			46.70	9.9	NA
Cane (million tons)	22.81	29.67	36.88			35.88	9.5	6.5
Beet (million tons)	6.30	6.36	6.71			10.82	11.4	20.5
Tobacco (million tons)	0.727	1.28	1.85			1.3	12.6	0.5
Pork, beef, mutton (million tons)	12.05	12.61	13.51			14.6	3.9	NA

<sup>a</sup> Published targets probably under revision.<sup>b</sup> Targets not yet published.

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**Table B-3**  
**Sixth FYP Industrial Performance and Goals**

	1980	1981	1982	1983	1984 <sup>a</sup>	1985	Average Annual Growth Rate (percent)	
							1981-85	1976-80
<b>Light industry</b>								
<b>Textile</b>								
Yarn (million tons)	2.93	3.17	3.35	3.32		3.59	4.2	6.8
Cloth (billion meters)	13.47	14.27	15.35			15.30	2.6	7.5
Woolen goods (million meters)	100.95	113.08	126.69			180.00	12.3	NA
Silk (thousand tons)	35.40	37.40	37.10			43.00	4.0	NA
Silk fabrics (billion meters)	0.76	0.84	0.91			1.00	5.7	NA
Chemical fibers (thousand tons)	450.30	527.30	517.00			780.00	11.6	23.8
Paper (million tons)	5.35	5.40	5.89			6.00	2.3	9.4
<b>Food</b>								
Sugar (million tons)	2.57	3.17	3.38	3.70		4.30	10.8	8.1
Beer (million tons)	0.69	0.91	1.17			2.00	23.8	NA
<b>Heavy industry</b>								
Coal (million tons)	620.00	622.00	666.00	670.00		700.00	2.5	5.2
Oil (million tons)	105.95	101.22	102.12	100.00		100.00	-1.1	6.6
Electric power (billion kilowatt-hours)	300.60	309.30	327.70	338.00		362.00	3.8	9.0
Natural gas (billion cubic meters)	14.27	12.74	11.93	10.40		10.00	-6.9	10.0
Crude steel (million tons)	37.12	35.60	37.16	35.50		39.00	1.0	9.2
Pig iron (million tons)	38.02	34.17	35.51	29.00		34.80	-1.6	9.2
Rolled steel (million tons)	27.16	26.70	29.02			29.30	1.5	10.9
Chemical fertilizer (million tons)	12.32	12.39	12.78	12.55		13.40	1.7	18.6
Cement (million tons)	79.86	82.90	95.20	92.00		98.00	4.2	11.5
Timber (million cubic meters)	53.59	49.42	50.41	50.85		55.00	0.6	2.8
Machinery (billion 1980 yuan)	112.17					140.9	4.5	7.4
Producer equipment (billion 1980 yuan)	85.25					91.39	1.4	NA
Consumer equipment (billion 1980 yuan)	26.92					49.53	13.0	NA

<sup>a</sup> Targets not yet published.

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**Confidential****Table B-4**  
**Sixth FYP Budget Statistics***Billion yuan*

	1980	1981	1982 <sup>a</sup>	1983	1984	1985	1981-85
<b>Budget revenues</b>	<b>108.52</b>	<b>108.95</b>	<b>110.69</b>	<b>123.2</b>	<b>125.06</b>	<b>127.4</b>	<b>595.3</b>
Profits	43.52	35.37	31.1	32.39			
Taxes	57.17	62.99	67.95	72.97			
Bonds			4.2	4.0			
Depreciation				2.2			
Foreign loans	4.3	7.31	5.0	5.4			
Other				6.0			
<b>Budget outlays</b>	<b>121.27</b>	<b>111.49</b>	<b>113.69</b>	<b>126.2</b>	<b>128.02</b>	<b>130.4</b>	<b>609.8</b>
Capital construction	41.94	33.06	30.27	36.18			170.0
Potential tapping	8.04	6.53	6.07	6.57			
Working capital	3.67	2.28	2.3	2.25			
Agriculture		7.37	7.65	7.75			38.7
Education and science	15.63	17.14	19.0	20.4		21.91	96.7
Defense	19.38	16.80	17.87	17.87			88.3
Loan repayments			4.97	5.1			
Administration	6.68	7.09	8.0	8.5			40.8
Welfare			2.4	2.4			24.3
Jobs for school leavers			0.38	0.38			
General reserve fund				2.0			4.0

<sup>a</sup> Preliminary.

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## Appendix C

### Incremental Capital-Output Ratios

Incremental capital-output ratios (ICORs) are rough, yet useful, measures of investment efficiency. Conceptually, an ICOR indicates the increase in capital stock required to generate a unit increase in output. Arithmetically, an ICOR is the quotient: change in capital stock divided by change in output, both for a specified time period. This appendix presents data on ICORs for China and briefly discusses their merits and shortcomings. [ ]

#### Calculating ICORs

National income is the most comprehensive measure of output published by the Chinese. "National income produced" (NIP) is net value produced in five "material" sectors—industry, agriculture, construction, transportation and communications, and commerce. It excludes service-sector activity that does not contribute directly to material output. We use NIP to calculate both types of ICORs shown in table C4. Data on NIP are shown in tables C1 and C2. [ ]

To calculate change in capital stock, we use net investment data. The Chinese publish data on "available national income" (ANI)—the sum of NIP and net imports from abroad—and its components, consumption and accumulation. Accumulation is net investment in fixed assets and working capital. Data on ANI, accumulation, and consumption also are presented in tables C1 and C2. [ ]

We use data on accumulation to derive the numerator used in calculating the total asset ICOR, as follows:

$$\text{Total asset ICOR} = \text{accumulation/change in NIP} [ ]$$

For the other ICOR presented in table C4, we use a measure of capital that reflects changes in fixed assets and ignores working capital. Ideally, since historical data on investment in total fixed assets are available (table C3), we should use similar data in our calculations to compare the Sixth FYP ICORs with earlier ones. However, comparable data for the Sixth Plan are not available, and instead we use data on capital construction. Capital construction is defined as investment in new fixed assets in the state-managed portion

of the economy. The fixed asset ICOR is calculated as follows:

$$\text{Fixed asset ICOR} = \text{capital construction/NIP change} [ ] \quad 25X1$$

#### ICORs Are Problematical . . .

Use of either type of ICOR is problematical, both for conceptual and data reasons. First, economic growth is a complex function of many factors, only one of which is investment. The erratic movement of Chinese ICORs—see table C4—suggests that there is no steady relationship between capital investment and growth. Other factors include quality of management and quantity and quality of labor inputs, as well as efficiency of use of raw materials and other inputs. In the Chinese case, the degree of political stability almost certainly plays an important role in economic growth. [ ] 25X1  
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Second, the aggregate investment numbers we use in the ICOR calculations hide changes in the focus of investment. In the Second FYP, for example, huge sums were spent on what the Chinese subsequently admitted were inefficient, small-scale factories and mines. Furthermore, spreading large investment sums too thinly over too many projects means that projects are completed more slowly. [ ] 25X1  
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Third, capital construction is a poor proxy for fixed investment. Capital construction covers only the state sector and excludes the collective sector: the majority of agriculture is collectively owned, as is a small part of industry. A second objection to using capital construction as a stand-in for net fixed investment is that some of the spending on new assets is actually replacement. [ ] 25X1  
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#### . . . Yet Revealing

These objections notwithstanding, ICORs are indicative of the past efficiency of China's investment, and do reveal what China expects in the current plan. Chinese economists, government and academic alike, use ICORs as a measure of overall economic efficiency. [ ] 25X1

Table C-1

## China: National Product and End Use, 1952-85

	Billion Yuan, Current Prices				Percent	
	National Income Produced	Available National Income	Accumulation	Consumption	Accumulation Rate	Consumption Rate
1952	58.9	60.7	13.0	47.7	21.4	78.6
1953	70.9	72.7	16.8	55.9	23.1	76.9
1954	74.8	76.5	19.5	57.0	25.5	74.5
1955	78.8	80.8	18.5	62.3	22.9	77.1
1956	84.8	88.2	21.7	66.5	24.6	75.4
1957	90.8	93.6	23.3	70.3	24.9	75.1
1958	111.8	111.8	37.9	73.9	33.9	66.1
1959	122.2	127.4	55.8	71.6	43.8	56.2
1960	122.0	126.5	50.1	76.4	39.6	60.4
1961	99.7	101.6	19.5	82.1	19.2	80.8
1962	92.4	95.2	9.9	85.3	10.4	89.6
1963	100.0	104.6	18.3	86.3	17.5	82.5
1964	116.6	118.5	26.3	92.2	22.2	77.8
1965	138.7	134.7	36.5	98.2	27.1	72.9
1966	158.6	153.6	47.0	106.6	30.6	69.4
1967	148.7	141.4	30.4	111.0	21.5	78.5
1968	141.5	141.2	29.8	111.4	21.1	78.9
1969	161.7	153.9	35.7	118.2	23.2	76.8
1970	192.6	187.8	61.8	126.0	32.9	67.1
1971	208.2	200.6	68.4	132.2	34.1	65.9
1972	214.0	205.1	64.8	140.3	31.6	68.4
1973	232.6	226.2	74.1	152.1	32.8	67.2
1974	235.1	228.7	74.1	154.6	32.4	67.6
1975	250.3	244.8	83.0	161.8	33.9	66.1
1976	243.3	243.1	75.6	167.5	31.1	68.9
1977	265.7	257.6	83.2	174.4	32.3	67.7
1978	301.0	297.5	108.7	188.8	36.5	63.5
1979	335.0	335.6	116.1	219.5	34.6	65.4
1980	366.7	368.4	116.5	251.9	31.6	68.4
1981	388.7	384.9	109.0	275.9	28.3	71.7
1982	424.7	424.7	131.7	293.0	31.0	69.0
1983	439.0	439.0	127.0	312.0	29.0	71.0
1984	453.0	453.1	131.0	322.0	29.0	71.0
1985	468.0	468.0	136.0	332.0	29.0	71.0

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**Table C-2****China: National Product and End Use, by Five-Year Plan**

	First FYP, 1953-57	Second FYP, 1958-62	1963-65	Third FYP, 1966-70	Fourth FYP, 1971-75	Fifth FYP, 1976-80	Sixth FYP, 1981-85
National income produced ( <i>billion current yuan</i> )	400.1	548.1	355.3	803.1	1,140.2	1,511.7	2,173.4
Available national income ( <i>billion current yuan</i> )	411.8	562.5	357.8	777.9	1,105.4	1,502.2	2,169.6
Accumulation ( <i>billion current yuan</i> )	99.8	173.2	81.1	204.7	364.4	500.1	634.7
Consumption ( <i>billion current yuan</i> )	312.0	389.3	276.7	573.2	741.0	1,002.1	1,534.9
Accumulation rate ( <i>percent</i> )	24.2	30.8	22.7	26.3	33.0	33.3	29.3
Consumption rate ( <i>percent</i> )	75.8	69.2	77.3	73.7	67.0	66.7	70.7

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**Table C-3****China: Investment Statistics, by Five-Year Plan***Billion current yuan*

	First FYP, 1953-57	Second FYP, 1958-62	1963-65	Third FYP, 1966-70	Fourth FYP, 1971-75	Fifth FYP, 1976-80
Accumulation	99.8	173.2	81.1	204.7	364.4	500.1
Productive	59.7	150.9	53.1	152.5	282.1	359.1
Nonproductive	40.1	22.3	28.0	52.2	82.3	141.0
Accumulation (by type of asset)	99.8	173.2	81.1	204.7	364.4	500.1
Fixed assets	62.2	129.4	58.9	137.1	264.9	374.6
Inventories	37.6	43.8	22.2	67.6	99.5	125.5
Capital construction	55.0	118.7	40.4	91.5	168.0	224.3

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**Table C-4****China: Incremental Capital-Output Ratios (ICORs), by Five-Year Plan**

	First FYP, 1953-57	Second FYP, 1958-62	1963-65	Third FYP, 1966-70	Fourth FYP, 1971-75	Fifth FYP, 1976-80	Sixth FYP, 1981-85
Accumulation ( <i>billion current yuan</i> )	99.8	173.2	81.1	204.7	364.4	500.1	634.7
Capital construction ( <i>billion current yuan</i> )	55.0	118.7	40.4	91.5	168.0	224.3	230.0
Change in national income produced ( <i>billion current yuan</i> )	31.9	1.6	46.3	53.9	57.7	116.4	101.3
Total asset ICOR ( <i>yuan investment per yuan change in national income</i> )	3.1	108.3	1.8	3.8	6.3	4.3	6.3
Fixed asset ICOR ( <i>yuan investment per yuan change in national income</i> )	1.7	74.2	0.9	1.7	2.9	1.9	2.3

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